RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

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May 21, 1997 **LETTER 1226**

Question: Russell, is this the wildest stock market you've ever seen?

Answer: Yes, the wildest I've personally seen. Of course the 1929 to 1934 market was wilder, but I was a young boy then and was not watching the market (although I certainly heard my parents talk about it).

Question: What does it mean when markets are this wild, when, for instance, the Dow rises 100 points one day, drops 140 points the next day, then rallies 110 points on the third day? What does this kind of action mean?

Answer: It means that either the market is making a violent **adjustment** to conditions that it sees ahead -- or that there are **major differences** of opinions, and that a huge battle is in progress between buyers and sellers.

THE MARKET: The big picture is this -- on May 5 the D-J Industrial Average closed at a new all-time high, thereby confirming the prior record high set by the Transports. With both Averages hitting new highs, Dow Theory classification comes to the fore. Under Dow Theory, the primary trend of the market has been clearly reconfirmed as bullish.

Supply and demand always rule the market. And as this is written, demand is the dominant force. Incredibly, demand rules despite the fact that this market sports the lowest dividend yields in history, the highest price/earnings ever applied to record earnings, the precious metals rising, the Fed beginning to tighten and the Dow in an almost vertical rise.

Recent History: The Dow closed on April 11 at 6391.69. One month later, on May 12, the Dow closed at 7310.47. That represents a gain of **919 points** or **14.4%** in a period of 21 trading days. Anyway you look at it, we're seeing huge upside velocity and momentum, but hey, it's no record.

You want upside velocity, try this. On July 8, 1932 the Dow plunged to a bear market low of 41.22. That was the extreme bottom -- and then came the reversal. By August 10 the Dow closed at 69.39. That was a 28 point rise for a gain of **68.3%**, all in a period of 33 trading days.

Of course, there's a big difference in the two periods. The 1997 advance, spectacular as it has been, has come in a market that had not seen so much as a 10% Dow correction (closing basis) in seven years. On top of that, the 1997 surge came in the face of a record low Dow yield of 1.7%.

In the early 1930's the situation was dramatically different. The explosive 1932 rise came following the end of the worst bear market in Wall Street history. That rise came out of extreme downside compression, amid probably the blackest gloom this nation has ever seen. At the July '32 low, the Dow was yielding a fat 10%, the highest yield for blue-chip stocks in Wall Street annals.

So much for comparisons. It's important to realize that the **stock market is always seeking to adjust to future expectations.** This often amounts to the market "looking" six months to more than a year ahead. It also means that if or when perceptions about the future **change**, the stock market will reverse its trend accordingly.

May 9 DJIA 7169.53; PTI 4856; A-D Ratio +3.81
May 16 DJIA 7194.67; PTI 4869; A-D Ratio +4.09
Dow Yield: 1.71%; Dow Price/Earnings: 18.9
Dow 144-day MA: 6647; Dow 34-day MA: 6993
Dow Times Book Value: 5.37; PTI 89-day MA: 4795
Percentage of Undervalued Blue-chips: 6%
Gold 144-day MA: 361

The Mantra For 1997: It's the Best Of Times

By DAVID E. SANGER

WASHINGTON, May 2 — When it comes to economic news, it does not get much better than this.

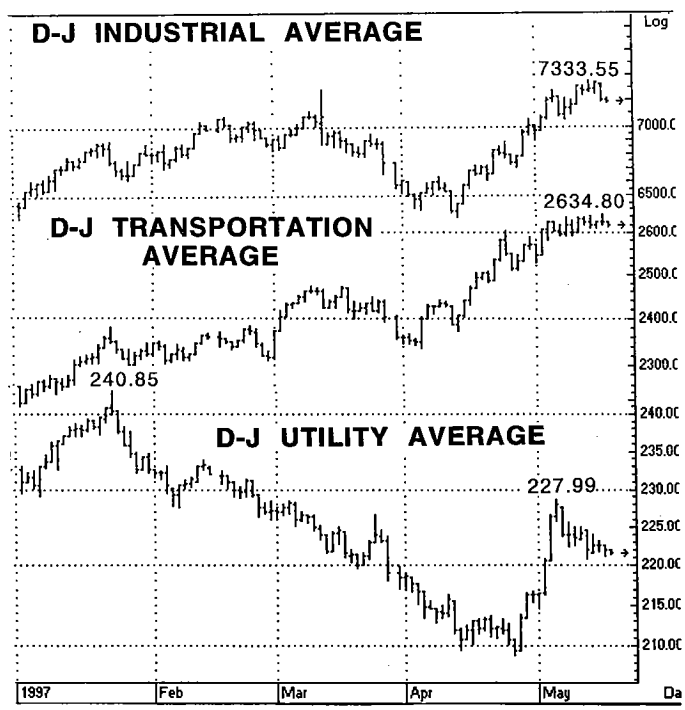
Unemployment, the Government concluded today, fell below 5 percent for the first time in nearly a quarter of a century. Economic growth in the first quarter of the year, at 5.6 percent, was nearly double the predictions.

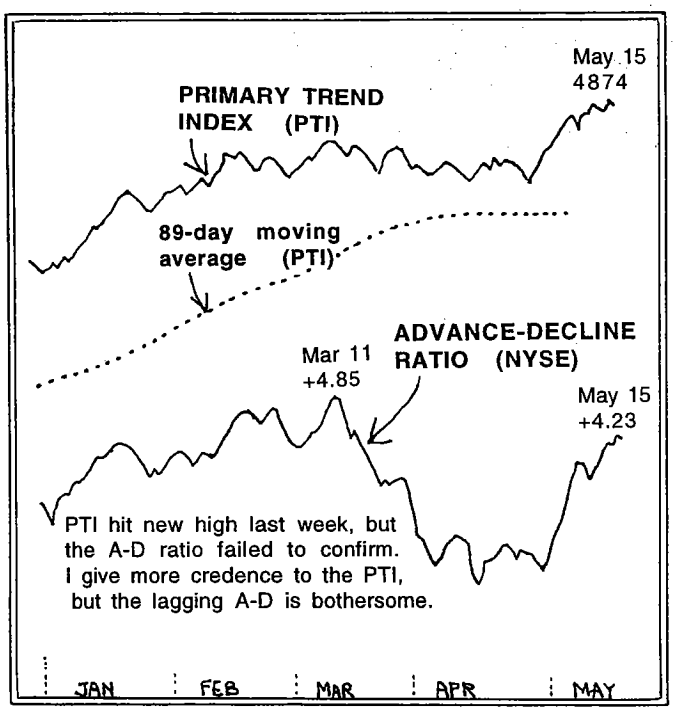
News Analysis

And in striking the broad outlines of a

It seems to me that this stock market has been reflecting what this headline from the May 5 *New York Times* tell us -- that these are "The Best of Times." In other words, the market is ecstatic regarding the present and extremely optimistic about the future. But unless economic cycles have been relegated to history, at some time and place the market will have discounted the very BEST that can be seen ahead. At that point the market will begin to discount the coming down-cycle -- and a bear market of undetermined duration and extent will be born.

Dow Theorists and all serious investors are always aware of the possibility of a primary reversal, the turn from bull market to bear market. For just as investing in a bull market can build fortunes,





ignoring or riding through a bear market can "turn a million dollars into a shoestring."

All during the February-March weakness the Transports (I call them "the heroes of '97") stubbornly refused to confirm the Dow weakness. In fact, just the opposite took place, for on April 17 the Transports rallied to a new record high. At that point it was up to the Industrials to match the performance of the Transports. On May 5 the Industrials finally obliged, closing at a new record high of 7203.25.

The May 5 Dow surge represented the "umpteenth" time that the Averages have re-confirmed the great bull market. With the May 5 re-confirmation, we come to the next question -- how much higher can the bull market climb?

One caveat, and I've written about this many times before. In every bull market there must be a final "bull market re-confirmation," a re-confirmation which will be the LAST ONE prior to the next bear market. Just as every champion prize fighter must have a final victory before he is either beaten or retires, every bull market must have a final re-confirmation before it expires and the next bear market begins.

With the yield on the Dow down to a never-before-seen 1.71%, anyone with a sense of market history must be watching goggle-eyed at the action of this market. Can the bull market extend its rise another 50 points, 100 points, 500 points? Or is the bull market moving closer to trouble? Is a bear lurking somewhere in this dangerous "7" year of the decennial pattern? Or will this incredible bull market continue to thumb its nose at both valuations and history?

At this point I have to give an appreciative bow to my **Primary Trend Index** (see page 2 chart). Beginning in February, the PTI worked its way sideways. Despite weakness in the great majority of stocks, the PTI, during the decline, never came closer than 20 points to its 89-day moving average.

Irony -- it got to the point where I had to make excuses for the PTI's refusal to break down. But as usual the PTI knew what it was doing. On Friday, May 2, the PTI (see last Letter) rose to a new record high. On Monday, May 5, the Dow followed the lead of the PTI, leaping 143 points to a new record high. The rise continued from there.

Dividends: The dividend yield on the S&P 500 is down to 1.70%, which is a record low. So what's the story on dividends? *Standard & Poor's* has thrown some light on the dividend situation.

This from the latest *S&P's The Outlook:* "Looking Ahead: Dividends on the S&P 500 in the four months through April rose 6%, year-to-year. We've trimmed our projections of full-1997 growth from 8% to 7%. Based on current estimates, dividends as a percent of earnings (the payout ratio) would be a record low of 35.7% this year, down from 38.4% in 1996 and the previous low of 38.0% in 1979. The current dividend yield is near the all-time low of 1.87% reached this February." **Russell note:** *Barron's* lists the current dividend yield for the S&P 500 at 1.68%, a record low.

WORLD OVERVIEW: Having won the cold war and now leading the world in prosperity, the US has become the only unchallenged world power (both militarily and economically) in modern history. But sooner or later "the biggest guy on the block" will face challengers. There's always some little guy who will step out to take on the big guy.

And the challengers are beginning to appear. Europe wants to move up the world power-chain by forming a sort of "United States of Europe," starting with a single central bank and a single currency. And last month there was an unusual (ominous?) summit meeting between communist China and formerly communist Russia.

The struggle for world power never ends. Now it is in the subtle stage, mainly because of America's undisputed strength and leadership. But behind the scene the underdogs are stirring. **Watch the dollar.** In the "old days" the best barometer of a nation's strength used to be "where the gold goes," or whether a nation was accumulating or losing gold. Times have changed -- now it is the **strength or weakness of its currency** (see later section on currencies).

INVESTMENT POSITION: With the Dow, the Transports and the S&P all recording record highs last week, the bull has pushed the last Letter's "blear" out of the box and resumed his rightful position. With the Dow up 911 points in 33 days, a correction here would not be a shocker.

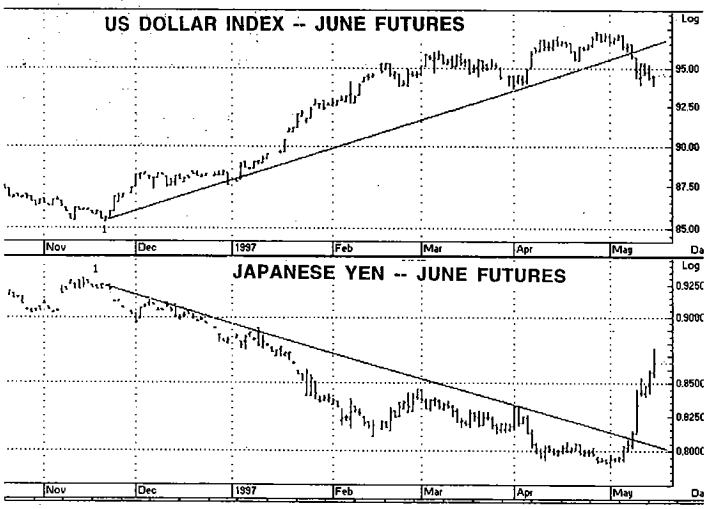
For the sake of argument, let's say a correction does occur. It's what happens AFTER the correction that tells Dow Theorists whether the bull still lives. But let's not jump the gun. We haven't got a correction yet.

The biggest losers of 1997 must be the traders who shorted the blue-chips. The biggest winners are those who were long the blue-chips. Can the blue-chips continue to go skyward? Call me a skeptic, but I think the bull is tired.

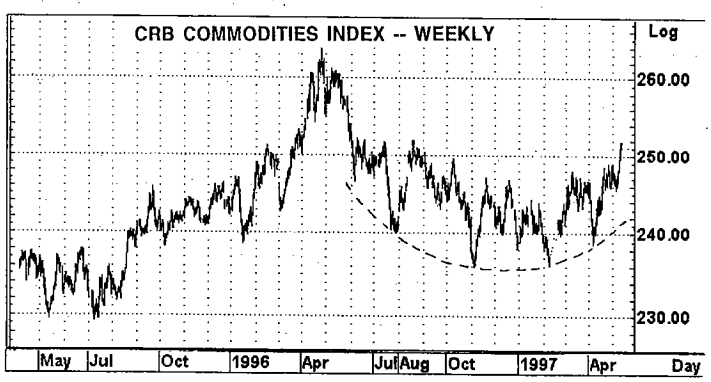
My choice for investing here -- Treasury bonds out two years, but I'd go out as far as 10 years for a portion of your money.

CHARTS: "Things change," and these days there are some major changes in the wind. So saying, let's review a few key charts. The first chart shows the June US Dollar Index, and to me it looks very toppy. The index has broken below a six-month rising trendline, and it will be crucial to see whether the Dollar Index can hold above its April 1 low of 93.84. If it breaks that level, the top-out will be decisive and complete.

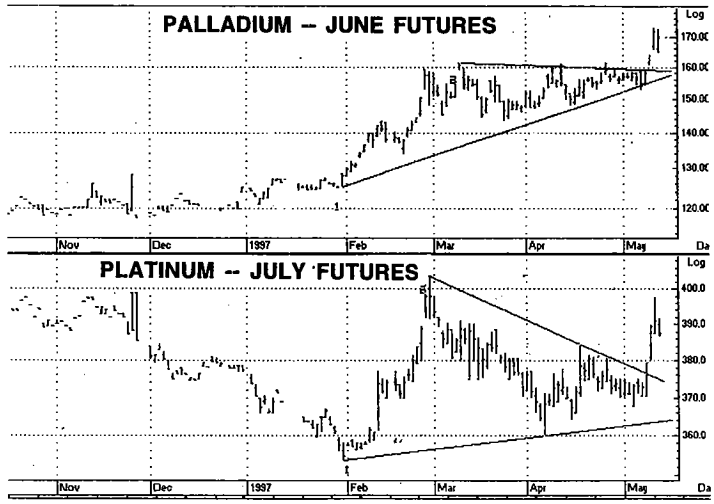
The yen is the reverse story. The yen has been falling ever since its April '95 peak of 1.210. On April 30, 1997 the yen hit an extreme low of 0.7916. Last week the yen broke out above a six-month declining trendline, and it looks as though the bottom is in place. A rising yen and a lower dollar is bullish for US stocks.



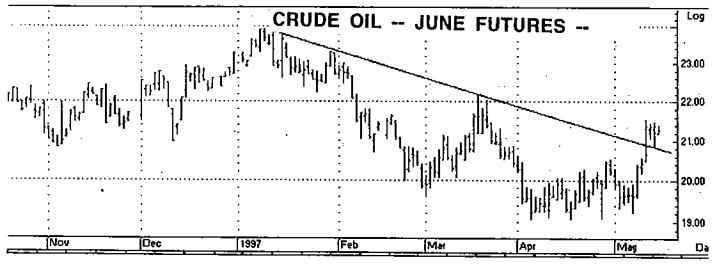
I don't think many people have noticed this but the weekly CRB Commodity Futures Index has formed a huge rounding bottom and on May 12 it broke out on the upside above 250. This puts it, in my opinion, in the "inflation mode." True, the CRB Index is heavily weighted for agriculturals, but the CRB, at its highest level since last August, is saying "inflation."



Palladium often leads the metals. On May 9, palladium (June futures) gapped out of a large ascending triangle and moved to a new high for the year. Following the lead of palladium, platinum gapped up on May 9, rising to its highest closing level of the year. I might add that both of these metals come largely from Russia and Russian exports of both have mysteriously dried up.



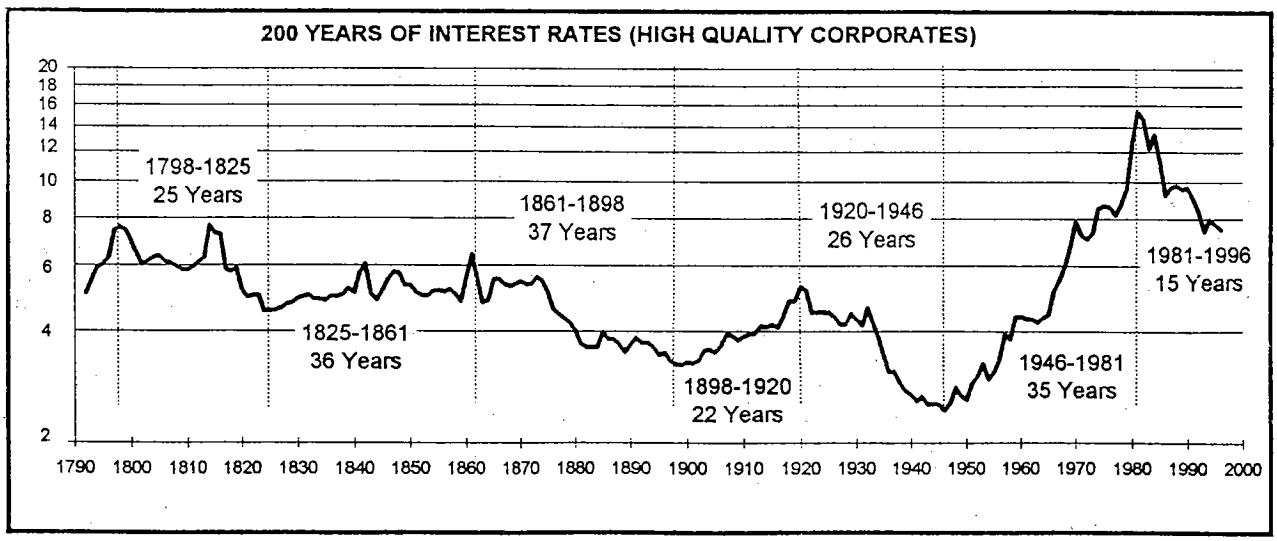
Last week the crude oil June futures rose above 21 dollars a barrel, thereby reversing a bearish trendline that has held in place since early January. Oil, often called "black gold," is one of the chief mainstays of inflation. Rising oil prices are inflationary.



Probably the most important chart of the group is this very long-term chart of quality bonds (chart courtesy of the *Leuthold Group,* Butler Square Post Office, PO Box 300527, Minneapolis, MN 55403). The operative thesis here is TIME. Bull and bear markets in bonds (unlike the vast majority of bull and bear markets in stocks) tend to last a quarter of a century or more.

The chart follows six such periods, the most recent being the crushing bond bear market of 1946 to '81 (in which a monster $5 trillion of government debt was accumulated). The implication (prediction?) here is that the bull market in bonds which began in 1981 should continue, maybe for another decade.

A few analysts even make so bold as to state that over the next few years (and maybe more) bonds should fare better than stocks. This



is based partly on the fact that good bonds yield 6-7% while good stocks yield 1.7%.

Studies show that since 1900 the total return on stocks runs around 10% -- but 40% of that total return includes stock dividends. With average stock dividends now around 1.7%, and with stocks selling at the highest price/earnings applied to record earnings in history, the bond bulls have a very good argument.

NOTES & QUOTES: The war against tobacco continues. I quit smoking in 1970 (after having smoked for 18 years). Quitting was extremely difficult; I did it by scaring myself by reading medical evidence, which I think is the best way to quit. I knew cigarettes were deadly, and I knew if I continued to smoke the smokes would kill me. So my fear overcame my addiction, and believe me, the nicotine addiction is super-powerful. Incredibly, with all the adverse news regarding cigarettes, 25% of Americans still smoke. Smoking is far less prevalent on the West Coast than on the East Coast (the first thing I notice when I go to NYC is how many people are still smoking). In Asia, everybody smokes.

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The following is from Don Morris' *Trident Syndicate*, PO Box 19909, Houston TX, 77224: "In South Africa at the moment, the most popular brand of cigarettes are named DEATH (from The Enlightened Tobacco Company, PLC, London) in a black package with a skull-and-crossbones logo -- also available in DEATH-LIGHTS (white package with the skull-and-crossbones in a black oval). The warning states, SMOKING CAUSES FATAL DISEASES -- DEATH is a responsible way to make legally available a consumer product which kills people when used as intended." **Russell comment:** With the amount of evidence against smoking now available, if YOU still smoke you're simply in DENIAL.

* *

While I'm on depressing subjects, here are the World Bank's statistics on global deaths: Rank #1 -- heart disease with 6,260,000 annual deaths; #2 -- strokes at 4,381,000; #3 -- pneumonia and lower respiratory infections at 4,299,000; #4 --Diarrhea diseases at 3,455,000; #5 -- prenatal diseases at 2,443,000; #6 -- chronic lung diseases at 2,211,000; #7 -- tuberculosis (non-HIV) at 1,960,000; #8 -- measles at 1,058,000.

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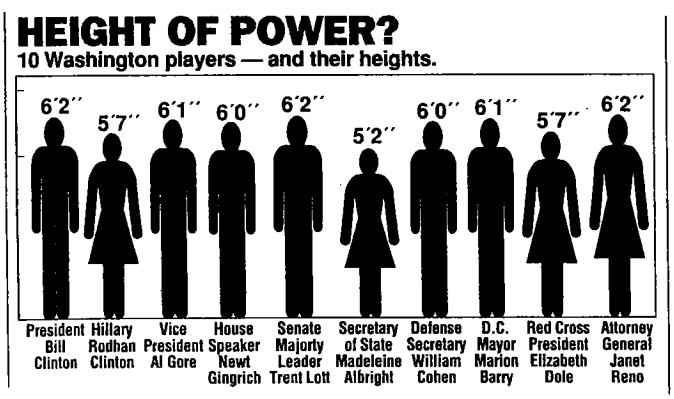
Who are the tallest people in the world? It's not the Americans, it's the Dutch where the height of the average man is now six foot with the Norwegians, Danes and Swedes only 1/2 inch shorter. However, American men, with an average height of five foot nine, are now about four inches taller than their 19th century counterparts. Of course, they're not a nation, simply a tribe, but the men of the Watusi tribe of Africa average seven feet in height. Times change -- Jack Johnson, the great heavyweight champion of the early 1900s was known as "the Black Giant" (he was a mere six foot tall). If you go to the Metropolitan Museum in NYC and look at the knights' armor collection, it's amazing. Most of the armor was made for men around five feet four or five. A six foot man in those days must have been considered a freak . . . They say in US Presidential elections, the taller man almost always wins. Here's a profile of Washington players, courtesy of the *Washington Times*. Gad, did you know that Janet Reno was six foot two.



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Slowly, slowly, the deceit in the **national budget** is emerging. The last issue of *Forbes* (editorial) notes that the budget is being "balanced" by including the money that comes in marked for Social Security (how many times have I said this?). In the May 5 *USA Today* editorial we hear, "The fact is that the balanced budget in 2002 won't be balanced. Clinton and Congress avoided dealing with $450 billion worth of over-spending over the next five years by simply counting surpluses borrowed from Social Security and other federal trust funds as income."

Russell comment: This despicable and deceptive process will backfire during the next 10 years as the Social Security Trust goes into negative territory. But pols from both parties are content to count the SS funds in the budget while lying to the American people. Balanced budget -- baloney. I keep looking at the steady build up of the national debt, which is heading towards $6 trillion -- we're adding to the debt at the rate of $250 billion a year. The interest on the national debt is now bigger than the defense budget.

* *

When any major change comes out of **Congress,** I always ask myself how it will affect the Congressmen and Senators. One pleasant change which may be part of the new budget will be a change in the inheritance tax. Currently you are allowed $600,000 which is not taxable if you die. The new bill presumably will "up" this amount, anywhere from $750,000 to $1.2 million. What are the chances that estate tax deductibles will actually be part of the new bill? I think there's a good chance -- PARTICULARLY SINCE SO MANY CONGRESSMEN AND SENATORS ARE MILLIONAIRES. Of course, I'm all for totally eliminating the inheritance tax. Isn't it enough that the government taxes us on our earnings all during our lifetime? Then when we die the government has the unmitigated gall to tax us on what is left of our estate after we've paid a lifetime of taxes. Disgusting.

I don't think that Americans realize what this tax system is doing to us, nor do they realize how much it costs to run our enormous government. Consider the following -- initially, the federal government taxes our income at 39.6%. Next, it taxes at 39.6% of what that income earns at the bank. Then it taxes at 28% any return from investments on that money. Finally, when we die the government moves in and grabs as much as 55% of the money we have accumulated over our entire lifetime, even though we have already paid taxes on that money.

* *

Speaking of taxes, the April 15 "Policy Analysis" published by the **Cato Institute** (1000 Massachusetts Ave., Washington DC 20001) makes the case for dumping our current outlandish tax system, jettisoning the IRS, and substituting a national sales tax. Their analysis shows that a 15% national sales tax would end personal, corporate, gift and estate taxes and would bring in as much money as the current system does. Send for this report (price -- $6); it's an eye-opener and makes absolute sense. Ways and Means Committee Bill Archer (R-TX) is committed to a consumption tax. It's enough to make me want to move to Texas. Steve Forbes in his May 19 editorial wants to remove many of the current abhorrent taxes (I think Forbes will run for president in 2000, and he's got my vote).

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Jay Leno on the **Clinton trip** to Mexico: "It's part of a new exchange program. Once a year, Clinton will go to Mexico to visit all our jobs, and the president of Mexico will come here to visit all his people."

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The cover story for the current issue of *Forbes* (May 19) is entitled, "You're On Your Own, Kid." The article states that "wealthy executives are leaving more to charity and less to their children." Personally, if you have the money, I see nothing wrong with leaving some of it to your kids. I'm leaving my kids enough so that the interest on the principal I've given them will keep them from poverty -- but if they are interested in becoming rich, they'll either have to win the lottery, marry it or make it themselves. I've always drilled one thing into my kids' heads -- DON'T SPEND YOUR CAPITAL. Even better, **live on what you earn,** set your capital aside and compound the interest on that capital. In due time, you'll have more money than you'll know what to do with.

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We're hearing more and more about the "problem" of **China.** Here are some observations: I don't think China has any intention of screwing up Hong Kong. There's too much "high up" money invested in Hong Kong. Also, the Chinese high command knows that the world will be watching the situation when China takes over in July. China is not looking for adverse publicity.

Furthermore, US companies have obviously studied the Hong Kong situation. Exxon has signed a multi-million dollar deal in China to develop a power plant in partnership with China Light and Power. Visa has plans to introduce credit cards in China. IBM will invest $40 million in a Chinese venture for computer components. Chrysler has a joint venture with Beijing Automotive Corp. The Chinese currency will shortly become fully convertible. And this is very important -- China will probably have the world's largest economy by the middle of the next century. **Russell advice:** Don't bet against the money flow -- the money flow almost always wins. And the money flow is going towards China.

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India: This following from the latest *National Geographic:* "By the turn of the century India will become home to more than a billion people. By mid-century it will surpass China as the world's most populace country. Although three-fourths of the nation's people -- most of modest means, many impoverished -- live in rural areas, urban populations are soaring in cities like Mumbai (Bombay) where a quarter of a million farm workers arrive yearly in search of employment. Reducing India's annual growth rate of nearly 2% ranks among the government's most urgent priorities, but significant decreases are at best decades away. Until then the country must try to keep up with the housing, health and education needs of 18 million additional people every year."

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The **single currency** argument continues to occupy European minds. Many economists don't think it can work. States doubting Alice Rivlin, vice chairwoman of the US Federal Reserve, "You're in a peculiar situation if you're a European Central Bank. You don't have a government to report to . . . How do you maintain stability in an economy that may have different regions that behave differently, when you don't have a national, overall fiscal policy?" She notes that Europe lacks the US practice of temporarily shifting money from booming states to those that are in recession. If, say, food prices suddenly plummet and send Nebraska into a recession because it is too highly dependent on agriculture, the Fed doesn't do much. But Washington automatically sends more farm-support payments and unemployment benefits to Nebraska . . . While the European Union has a regional-development fund, it is limited in size, rigidly planned and doesn't act as an economic stabilizer. After monetary union, any national government that tries to boost its deficit to jump-start its economy will be subject to penalties.

* *

TV programs I try never to miss: NYPD Blue and Law & Order (L&O has consistently fine writing). Seinfeld is always funny, and it's the only sitcom I watch. And oh yes, I love the History Channel, A&E (those biographies are great) and I like almost all the nature films on Discovery. For relaxation I like to watch the chefs on the Food Channel as they whip up all those delicious dishes that I would never eat. Every dish seems to start with egg yolks, butter, heavy cream and cream cheese.

* *

Signs of the Times: The auction markets are heating up. At Sotheby's in Hong Kong a rare imperial bowl sold for $2.7 million. At Christie's a bronze deer sold for a breathtaking $5.8 million. Writes the *International Herald Tribune,* "Many professionals, without admitting it, are scared. The higher the prices, the riskier the game. Some think it is beginning to feel like the spring of 1990, when new buyers were going berserk -- a few months before the big crash" . . . The sports world gasped as last week the Boston Celtics paid the highest price ever for a coach -- $70 million over 10 years for Rick Pitino . . . The three principal actors on the sitcom, "Seinfeld," just had their take upped to $600,000 per episode. Seinfeld got "more."

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NY Times columnist Maureen Dowd isn't a Clinton fan. In her May 7 column she starts, "How weird is this? The Clinton Presidency that began with such grandiose designs has become so becalmed, so shrunken, so defeated, so aimless, so technical that George Bush now looms as a giant who bestrode the earth . . . Compared with the listless President, hobbled by crutches and investigations, paralyzed by the fear of offending anyone." **Russell comment:** I continue to believe that there's at least a 50/50 chance that Bill, Hillary or both will be indicted for obstruction of justice.

* *

Why is there so little **pricing power** in the world today (i.e., pricing power, the ability to raise prices)? The answer is probably the massive and growing manufacturing capacity of the Asian nations. *13D Research, Inc.* [(203)792-1300] notes that "Asia's big problem is that its export machine has grown too big. In 1987 Taiwan's trade surplus with the US peaked at $800 per capita, equaling a surplus of $16 billion or $64 per US resident. This, the US could easily absorb. But if China had the same per capita trade surplus with the US, our trade deficit would be $988 billion or more than $3,000 per US resident." **Russell comment:** That's a thought, particularly as China's industrial and export capacity surges year after year.

* *

After 3 1/2 years of marriage, Donald Trump has split with his wife, Marla. But why now? If Donald leaves now he'll owe his wife from $1 to $5 million. But if the union lasts one more year, Marla will get a goodly portion of Donald's net worth. What's Donald worth? Nobody's sure, but the estimates run from $450 million to $2.5 billion.

* *

I was never a fan of the Kennedy dynasty, starting with President Kennedy. But America's "First Dysfunctional Dynasty" is rapidly self-destructing. Consider the following -- evidently, both Jack and his brother Bobby had affairs with Marilyn Monroe. At the same time, Jack indulged in sexual antics with, it seems, any female who was available. Then we had Teddy's disastrous Chappaquiddick ride and the death by drowning of his female friend. A joyride with Joe Kennedy II left a young women paralyzed in a Nantucket accident. Bobby Jr. was arrested for heroin possession. David died in a Florida hotel of a drug overdose. William Kennedy Smith was accused, then acquitted of rape. Now Michael Kennedy, son of Robert Kennedy, has provided the latest scandal, a long relationship with his baby-sitter, starting when she was 14. On top of that, we have Joe Kennedy II, a sixth term Congressman, running for Governor. Problem: Joe's ex-wife Sheila, in a new book, "Shattered Faith," accuses Joe of being a bully as she protests his efforts to have their 12-year marriage annulled. The Kennedys -- a study in how money and power corrupts, generation after generation.

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New York is in an uproar over the possible ending of rent control in mid-June; the Republican majority leader of the state senate is threatening to let rent control lapse (he's received death threats). Headlines the *New York Observer,* "Chaos Looms." A second story screams, "Manhattan without struggling actors and starving writers? Without artists, singers and the occasional poet-anarchist? It's an image from free-market hell, but you'd better get used to it if rent regulations expire." Of course, if rent control ends or even partially ends, thousands of people are going to be priced out of the NYC market. The brokers (who move people) love it; the people living in rent-controlled apartments are terrified.

* *

When I first moved to San Diego in 1961 my friends in NYC thought I was nutso. "Where is Sandy Yego," they asked, "north or south of LA?" Times change. San Diego is now the sixth largest city in the nation, and the second largest city in California. And most people now know where it is (and it seems everyone wants to move here). The last Republican Convention was in San Diego. The next Super Bowl will be in San Diego. And guess who will be giving the commencement address on June 14 at the University of California at San Diego? Why it's none other than William Jefferson Clinton. When I moved to La Jolla (which is part of San Diego) in 1967, La Jolla was a quiet, boring, conservative little

town. Now it's busy, busy, loaded with traffic -- and I count 60 restaurants within six miles of my home. I guess that's the great American trade-off today, towns are either too busy or too boring, take your choice.

* *

Has Hollywood gone off its nut? There are 105 movies scheduled to appear between now and Labor Day -- and 25 of them are scheduled to be blockbusters. Many of the big action pics will ride the current fascination with science-fiction. Good luck, Hollywood, you'll need it.

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Speaking of overproduction, the cover story for the latest (May 10) issue of the *Economist* is "Car Firms Head For a Crash." With a turnover of $1 trillion and 10 million employees, the car industry is the world's biggest manufacturing business. Writes the *Economist,* "Such is the rush to capture new markets in Asia and Latin America that on some estimates the industry will by 2000 have the capacity to produce about 22 million more vehicles a year than the world wants. In other words, every car plant in America could close, and the world would still have too many cars. The Asia-Pacific regions, already the world's biggest producers, will add the capacity to make an extra 6 million cars a year in the next five years. Worse still for the established companies, new entrants are joining the scramble. S. Korea alone is building an industry with capacity about five times greater than the demand for cars in its domestic market. The S. Koreans do not intend to confine their competition to the developing world. They will be muscling into Europe as well."

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How ruthless is **Microsoft** when it wants an employee? Read this -- Microsoft was recruiting Paul Gross, Borland's former senior vice president in charge of research and development. In a law suit, Borland alleges that Microsoft offered Gross a $1 million signing bonus, stock options and real estate near Microsoft's campus in Redmond. Borland counter-offered, and then Microsoft offered an additional $500,000 if Gross would quit that day. Gross did quit in September but didn't join MSFT until after a three-month sabbatical to plan his wedding. MSFT claimed their tactics were no different from those of others.

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Bloomie: Back in the '60s and ever since I've followed Warren Buffett with great interest. As subscribers know, I now follow Michael Bloomberg. Michael B has a new book out, "Bloomberg on Bloomberg." Bloomberg used $4 million of his own money to develop his terminals. Merrill Lynch took a chance and installed the terminals, then liked them so much they bought 30% of Bloomberg for $30 million. Nice purchase; Merrill recently sold one third of their purchase (10%) back to Bloomberg for $200 million. The Vatican has two Bloomberg terminals right outside the office of Pope John. Talk about chutzpah, Bloomberg asked the Pope to write a blurb for his new book. The Pope declined.

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Are you eating your veggies and fruits? Are you getting enough fiber? If not, eat a teaspoon of Metamucil with each meal; a doctor (a lipid specialist) tells me that if nothing else it will reduce cholesterol by about 7%. Albers of the Arizona Cancer Center notes that among Africans the average transit time of a meal through the body is about eight hours (Africans eat more than twice as much FIBER as Americans). The typical transit time of a meal through an American body is about 48 hours.

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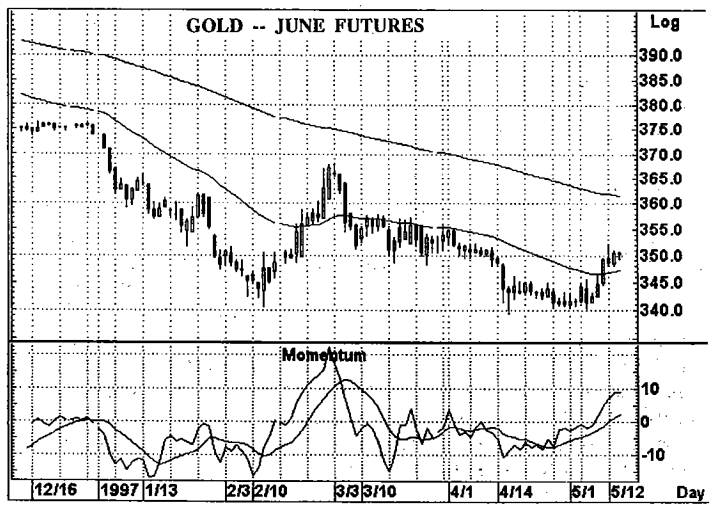
This could be a real buy -- Mike Tyson has put his home in central Connecticut up for sale. Mike paid $2.7 million for the place last year, and is now asking $22 million. Why the boost in price? Well, Mike put in some extras. The place now has 61 rooms, 38 baths, seven kitchens, an eight-car garage, five whirlpool baths, 17 spare bedrooms, a 3,500 square foot disco, a marble dance floor, a lagoon, a 20-foot waterfall, an arcade and a 1,500 square-foot mirrored exercise room. The whole set-up is situated on 17 acres. Good luck, Mike.

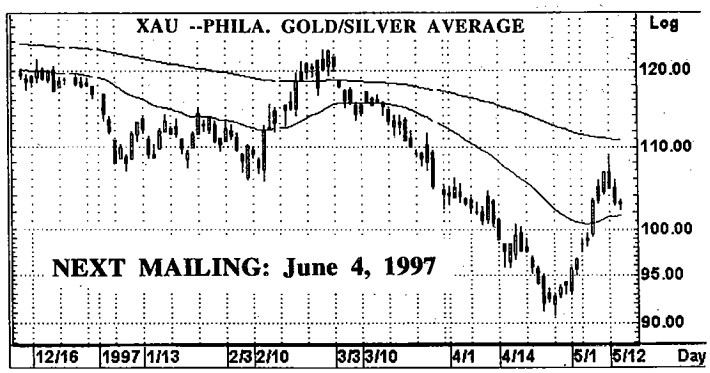
GOLD: The rising momentum in gold (in the face of the declining price) told the story. It looks as though, with a "double bottom" in February and May, that the turn could be here. On May 9, gold (June futures) surged above their 34-day moving average. Next target -- the 144-day MA, which now stands at 360.

The move was confirmed by strength in the other precious metals, palladium (the leader), silver and platinum. The base metals such as zinc, lead and copper have also been moving higher.

At the same time, XAU, the Phila. Gold/Silver Stock Average, has rallied from its April 28 extreme low of 90.78 to a May 12 intra-day peak of 108.74. More recently, XAU has backed off to test its 34-day moving average at 101. The upside target for XAU is now its 144-day MA at 111.

As for gold shares, I continue to like Euro Nevada and Franco Nevada, both on the Toronto Exchange and listed daily in the *WSJ.*





LATE NOTES: Bull and bear markets always over-run real values. At bear market bottoms, stocks sink below known values. At bull market tops stocks push well above known values. In both cases, crowd psychology takes over -- meaning that there's too much pessimism at bear market bottoms and too much optimism at bull market tops.

The great unmeasurable, of course, is HOW MUCH pessimism and HOW MUCH optimism will occur. In the present case, all we know is that stocks appear to have risen far above known values. How much further above known values stocks will rise is anyone's guess. Many young analysts (and some old ones) are convinced that "we've entered a 'new era'" (yes, but this time it's really, really new). The era may indeed be new, but human psychology remains the same.

The Russell Comment: Let's be honest, despite what you read, neither I nor anyone else knows how far this bull market will travel nor when it will end. I do offer one prediction, however, and it's that the further ABOVE historical known values the bull market pushes, the further BELOW known values the next bear market will carry. Extreme optimism and frenzied speculation provide great fun and profits while they last. But extreme optimism and frenzied speculation plant the seeds for the next great financial tragedy.